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DOS review(s) completed.

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Army review(s) completed.

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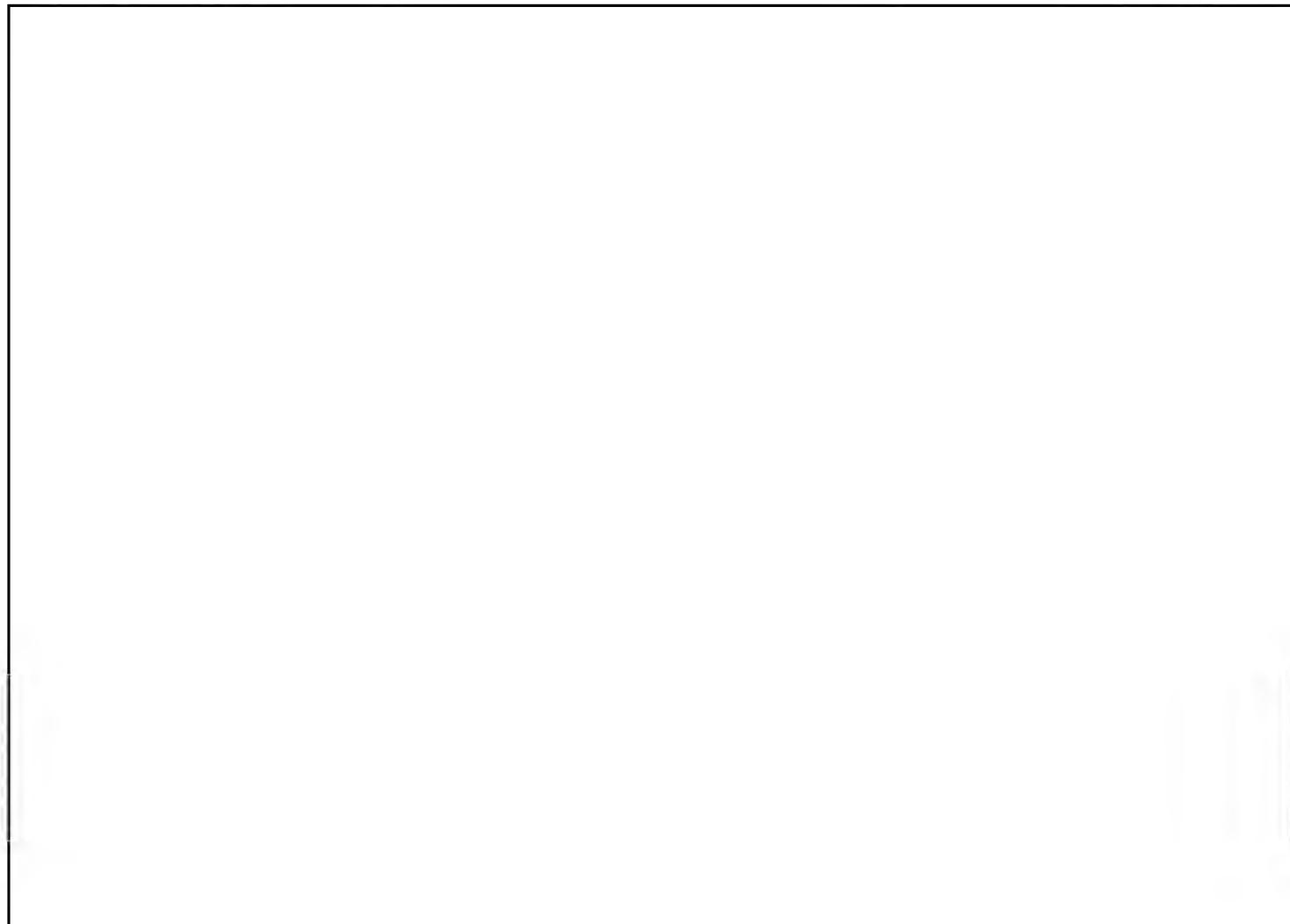
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FAR EAST

25X1A 2. Enemy supply build-up in Korea indicates increased offensive capability:

The US Eighth Army estimates, on the basis of the accumulation of supplies in Communist forward areas since 30 June, that the enemy now could support a 45-division attack for

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nine to eleven days or a 72-division attack for five to seven days. According to the Eighth Army, however, there is no firm indication that the enemy will soon resume the offensive.

Comment: Enemy forces probably have attained a state of logistical readiness comparable to that which existed prior to the launching of previous offensives. Their potential is increasing as the relative lull continues, and indications are that any new attack may be the strongest yet launched.

25X1A 3. Rumors of a cease-fire in Indochina continue:

The Ho Chi Minh government's "official" news agency broadcast without comment on 12 July a proposal made by the pro-Communist Paris daily Liberation for a cease-fire in Indochina.

Meanwhile, the US Minister in Saigon reports rumors that a three-day meeting scheduled to begin on 22 July between the International Red Cross delegate in Indochina and representatives of the Ho Chi Minh government may involve negotiations leading to a cease-fire. The Minister notes that the Viet Minh radio has been consistently emphasizing that "peace in Korea means peace in Asia."

Comment: Persistent rumors of cease-fire negotiations between the French and the Viet Minh to parallel those in Korea have been circulating in Saigon and Hanoi during the past two weeks. Both Bao Dai and Premier Huu have considered them as possibly true.

The US Consul in Hanoi recently reported that the Red Cross delegate had asked to use US code channels to Geneva. The unusual nature of the request raised the consul's suspicions that something more important than exchange of prisoner information was to be transmitted.

General de Lattre's statement earlier this week that the Viet Minh had suffered severe losses and might have to request a cease-fire is the only indication that the French have considered such a possibility.

EASTERN EUROPE

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4. Hungary requests explanation for US retaliatory action:

The Hungarian Government has demanded to know the reasons why the US declared two officials of the Hungarian Legation in Washington personae non gratae. The US Charge d'Affaires in Budapest believes that this move may indicate a Hungarian reluctance to take further retaliatory action as threatened by Deputy Foreign Minister Berei on 14 July. In the Charge's opinion, Hungary desires to retain the relatively large staffs of its Legation and newly reopened Consulates.

Comment: The US Charge previously had expected the threatened countermeasures to involve the expulsion of additional US Legation staff members. The Hungarian Government received permission in May to reopen its Cleveland and New York Consulates, which are staffed temporarily with personnel from the Washington Legation.

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5. Non-retaliation in Oatis case jeopardizes US prestige:

Non-communist diplomats in Prague consider that the US has lost prestige because of its failure to retaliate strongly against Oatis' imprisonment. Ambassador Briggs adds that the spectacle of the US "being kicked around with impunity" discourages resistance sentiment among the Czechs. Briggs, once more strongly urging the Department of State to adopt all possible retaliatory measures,

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recommends: (a) the denial of overflight permits across West Germany to all Czech planes, with or without British and French concurrence; (b) the blocking of Czech assets in the US; and (c) a campaign to arouse public clamor against Czechoslovakia and Czech products, which should be in full cry when the new Czech Ambassador arrives in the US next week.

Comment: The Department of State, which holds that immediate retaliation is in order, favors the denial to Czechs of permits to enter Western Germany as a first step, but the move has been held in abeyance pending the concurrence of the British and French Governments. Tripartite action is considered necessary to make this step effective, since no permits are required for travel between the three zones. The Department of State also is taking steps to arrange Oatis' exchange for a Czech national imprisoned in West Germany for espionage. An official boycott of Czech exports to the US would be a most effective retaliatory action.

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WESTERN EUROPE

6. Comment on new Spanish Cabinet:

The composition of the new Spanish Cabinet gives the impression that no liberalization of the regime has occurred. However, the choice of four or five men generally considered as falangist theoreticians interested in social reforms indicates that Franco has responded to domestic criticism. The preponderance of falangists and nominal monarchists gives the impression that Franco is ignoring the preferences of the Catholic Church regarding the future orientation of the regime.

The appointment to the economic ministries of men who are acceptable to the US and understand the practical workings of these ministries appears to have been made with a view to facilitating US economic aid. The reorganization of the Commerce and Industry Ministry into two separate components may reduce slightly the emphasis on industrialization and provide greater opportunities for private business.

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The appointment to the cabinet of Carrero Blanco, a notorious anglophobe, is a rebuff to the UK.

Little liberalization of the press can be expected under the new Minister of the Press, who is a falangist stalwart with a strongly pro-Nazi background.

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